

ARTICLE APPEARED
ON PAGE 1 (Part I).

LOS ANGELES TIMES
9 December 1986

Casey, Poindexter Misled Him About Arms Sale--Shultz

Knew 'Zero' of
Deal, He Testifies

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LONDON—Secretary of State George P. Shultz said Monday he assured U.S. allies this summer and fall that Washington was not selling arms to Iran because he was misled himself by CIA Director William J. Casey and then-National Security Adviser John M. Poindexter.

He conceded he was uneasy about having misled European leaders and moderate Arab officials but he said he had not lied to them because he himself had been misinformed. Shultz said he was told twice that the arms sales had been terminated although, he now knows, they continued.

"In the December [1985] period, my information was that this process had been ended," Shultz said. He spoke to reporters en route to a meeting with NATO allies.

"There was another period, toward the end of May, when there was something that convinced me to weigh in heavily [against the arms sales], that I was told again" that the operation had been stopped, he said.

He said Casey and Poindexter told him in May that the operation was over. He did not say what action had caused him to renew his concern about arms sales at that time.

Earlier on Monday, Shultz told the House Foreign Affairs Committee that he knew "zero" about the diversion of Iranian arms funds to the *contras* in Nicaragua and declared that the transfer of money to the U.S.-backed rebels was "illegal."

It was the first public declaration by an Administration official that the diversion of funds from Iranian arms shipments to aid the *contras* violated the law, although Shultz later told reporters that he had not intended to make a legal judgment. "I'll take that back," he said.

Shultz's testimony again challenged White House suggestions

that the arms shipments led to a halt to Iranian terrorism against Americans. Iran was involved "at least in some fashion . . . in the most recent hostage taking" of Americans in Lebanon, where three U.S. citizens have been kidnapped since September, Shultz said.

Extensively Briefed

As the first public accounting of the Reagan Administration's most serious crisis began on Capitol Hill, Shultz acknowledged that he was extensively briefed by former National Security Adviser Robert C. McFarlane about arms shipments from Israel to Iran in 1985.

But he told the nationally televised congressional hearing that he had only "sporadic and fragmentary" knowledge of the Iranian arms sales after President Reagan formally approved U.S. arms shipments last January.

Although Shultz said he attended a high-level discussion of the plan on Jan. 7, he said he was not informed of Reagan's final decision—contained in a Jan. 17 intelligence "finding"—to pursue further arms transfers to Iran. And he said he does "kick myself here and there" about not actively pursuing reports that Iranian arms shipments were continuing this year after top officials briefly agreed in December to halt the shipment of arms.

In a separate investigation, the Senate Intelligence Committee continued its series of closed sessions by calling Elliott Abrams, assistant secretary of state for Latin American affairs, to testify on the same subjects.

It was not immediately known what testimony, if any, Abrams gave. Two former members of the Administration—Poindexter and National Security Council official Lt. Col. Oliver L. North—refused to answer Intelligence Committee questions, citing their constitutional protection against self-incrimination.

Shultz also confirmed that he approved and took part in a State Department effort to persuade the sultan of the oil-rich Asian nation of Brunei to donate several million dollars to Nicaraguan rebels last summer.

"It was a perfectly proper activity for the Department of State, for

me to do that," Shultz said. "There's nothing illegal about it. There's nothing improper about it. Quite the contrary. It was the policy of the United States."

Shultz said he did not discuss the donation with the sultan during a three-hour visit he made to Brunei last June. Another official said Shultz sent at least one message to the sultan urging the donation, but that the lead role in the effort was played by Abrams.

Shultz confirmed that Abrams had "the lead responsibility" for arranging help to sustain the *contras* during a period when Congress had prohibited military aid to the *contras*.

Administration officials told The Times last week that Shultz had taken a personal role in persuading Sultan Muda Hassanah Bolkiah to donate the funds. The officials said the money was funneled through a secret Swiss bank account linked to North, who was fired two weeks ago.

"Obviously a country that you go to is probably going to want to do that secretly, and so you have to have a way of doing it," Shultz said in a reference to the Swiss bank account. "I knew that there was such a way because we had been discussing the subject and trying to figure out pursuant to the law and in accordance with the law how we might get some funds to [the *contras*]."

Humanitarian Aid

Shultz characterized the Brunei contribution as humanitarian aid—which was not affected by the congressional ban then in force against military aid to the *contras*. Other State Department officials have said that, because they do not know what happened to the funds after they entered the Swiss bank account, it is not clear what kind of aid the money was used for and Shultz himself conceded Monday that the ultimate disposition of the money remains unclear.

Shultz nonetheless drew a firm line between the State Department efforts to solicit money from other countries for the Nicaraguan rebels and North's diversion of profits from Iranian arms sales to the *contras* fighting the leftist Sandinista government in Managua.

"It was a mistake to get involved in the illegal . . . funds transfer,"

Shultz said, adding later that "insofar as the diversion of funds is concerned, if that took place, then that was not a legal thing to do. That was a violation of the law."

Shultz, telling lawmakers that his testimony was the first time in his 10 years as a Cabinet official that he had been asked to swear formally to tell the truth, said he was prepared to cooperate fully with the committee in its probe into the affair. But Shultz, who was forced to limit his testimony to just two hours because of a scheduled White House meeting with the leader of Zaire, said that some information could only be discussed in secret sessions.

Shultz, who flew to London on Monday afternoon en route to his first meeting with NATO allies since the Iranian arms shipments were disclosed, will provide further information to the committee in a closed session after he returns to Washington.

While committee members generally treated Shultz respectfully, many expressed amazement that the Administration's top foreign policy officials were not more closely involved in such key decisions.

"You can't run foreign policy successfully by bypassing your secretary of state, and the secretary of defense, the Joint Chiefs of Staff, the National Security Council and the Congress," committee Chairman Dante Fascell (D-Fla.) told Shultz. "And I'm sorry that you've been put in that position."

Extracts a Joke

Shultz, under pressure to explain how the NSC staff could engage in such activities without informing higher officials, managed to extract one joke from the situation when Rep. Dan Mica (D-Fla.) complained that North still sits on an interagency group to combat terrorism.

"I don't think he sits, still," Shultz cracked. "He never sits still."

Shultz argued that it was "outrageous" for ousted NSC aide North to ask billionaire H. Ross Perot to give a \$2-million cash reward for the release of American hostages in Beirut, but he said he was not informed of the move and "so far as I know the President wasn't informed."

But in Detroit, Perot said that he has been involved with efforts to ransom hostages under four different presidents. "Under this Administration, Oliver North had the key job," Perot said at a informal press conference. "I go back to the time that Alexander Haig [as an NSC aide under former President Richard M. Nixon] was the key guy, was my interface."

Shultz disclosed that he has already been questioned by Justice Department officials looking into the Iranian arms sale and diversion of funds to the contras and that he had turned over documents to the FBI.

Norman Kempster reported from London and Tom Redburn from Washington. Also contributing to this story was Times staff writer James Risen in Detroit.